



# **Lower Claims, Higher Profits: Where do Your Premium Dollars Go?**

*An examination of the burgeoning  
profitability of homeowners and  
private passenger automobile insurance  
companies and its impact on consumers*

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**California Department of Insurance**  
**John Garamendi, Insurance Commissioner**

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## Should Consumers be paying Lower Premiums given the Level of Profits in the Property-Casualty Lines of Insurance?

Despite the storms of the Gulf region, 2005 was a very good year for the profitability of property-casualty insurers in California. Indeed, since full-year 2005 figures have been available, there has been an ongoing national debate over whether the insurance industry has been making *excessive* profits. The follow up question in this debate is usually: If excessive profits are being made, are consumers also paying excessively high premiums for their insurance products?

It's not an easy question to answer. Because profits can be augmented by good investments and other strategies not related to premium, the more appropriate question might be: **Are premiums excessively high compared to the money paid out on insurance claims?** In an attempt to answer that question for California insurers and insurance consumers, we analyzed the 2001 through 2005 financial loss ratio data that insurance companies are required to file annually with the Department of Insurance. A loss ratio measures the relationship between the dollars paid out in claims and other loss expenses, to the premium dollars received from policyholders:  $(\text{incurred losses} + \text{loss adjustment expenses}) \div \text{earned premiums}$ .

We limited our review to the loss ratios of the top twenty (20) insurance companies that sell *homeowner* and *private passenger automobile* insurance in California in order to narrow the focus of our analysis. The premium volume for this group of insurance companies represents approximately 83% of the homeowner insurance sold in the state and approximately 80% of the private passenger automobile insurance sold in the state.

Low loss ratios can be the result of better underwriting, better risk selection or better luck, as well as excessive premiums. But certain trends in data support the inference that a decreased loss ratio can be the result of too high a premium level. For instance, an insurance company might have a lower loss ratio when it fails to reduce its rates despite decreased losses. This is especially true if it had previously raised its rates when losses increased. If such a *trend* surfaces, one can infer that the insurance company is overcharging its policyholders. Therefore, we have also analyzed the historical rate filings submitted by the insurers.

Beginning in 2004, loss ratios dropped precipitously in the homeowners' insurance market in California. Most of the loss ratios for the top 20 carriers in California were well below 50%. Only four companies had loss ratios exceeding 50% in 2004, and only two out of twenty companies reduced rates. Only five companies

had loss ratios exceeding 50% by the end of 2005, but only one company reduced its rates. The lowest loss ratio reported in 2004 for the top 20 companies was 24.23%, and that company did not reduce its rates in 2004 or 2005. Another company's loss ratio declined from 49.86% to 27.82% between 2004 and 2005, but it did not reduce its rates.

In the private passenger auto market, between 2002 and 2003, loss ratios declined for 18 of the top 20 carriers. Loss ratios declined further for all but two of the top 20 carriers between 2003 and 2004. Between 2004 and 2005 half of the top twenty carriers saw declining loss ratios in their automobile liability coverage. The large majority of companies had loss ratios in the 50% to 60% range, yet in 2004 and 2005 rates had not been reduced by most carriers.

California's Top 20 Insurance Companies  
Selling Homeowner Insurance

2001–2005 Incurred Losses + Loss Adjustment Expense to Earned Premium Ratio

| COMPANY NAME                      | 2001   | 2002   | 2003    | 2004   | 2005   |
|-----------------------------------|--------|--------|---------|--------|--------|
| State Farm General Ins Co         | 88.88% | 80.52% | 104.81% | 32.01% | 37.60% |
| Fire Ins Exchange (Farmers)       | 85.17% | 63.27% | 77.95%  | 37.64% | 37.70% |
| Allstate Ins Co                   | 71.98% | 65.46% | 91.38%  | 31.01% | 41.20% |
| California State Auto Assoc Inter | 75/61% | 77.80% | 44.79%  | 37.86% | 45.39% |
| Interins Exch of the Auto Club    | 82.26% | 89.74% | 113.18% | 49.93% | 68.97% |
| Mercury Cas Co                    | 81.35% | 74.71% | 69.56%  | 38.57% | 52.74% |
| United Services Auto Assoc        | 59.12% | 68.42% | 95.56%  | 51.88% | 31.82% |
| AMCO Ins Co                       | 73.92% | 88.90% | 103.99% | 45.64% | 46.79% |
| USAA Cas Ins Co                   | 68.31% | 64.37% | 77.52%  | 42.93% | 38.65% |
| Liberty Mutual Fire Ins Co        | 87.81% | 84.99% | 112.74% | 40.86% | 33.66% |
| Fireman's Fund Ins Co             | 55.69% | 45.38% | 53.58%  | 32.66% | 46.44% |
| Century -Natl Ins Co              | 61.34% | 82.04% | 131.71% | 59.09% | 52.85% |
| Pacific Casualty Ins Co           | 41.07% | 51.36% | 70.92%  | 49.86% | 27.82% |
| Travelers Prop Cas Ins Co         | 71.76% | 73.41% | 111.36% | 40.81% | 41.69% |
| Safeco Ins Co of America          | 63.50% | 53.57% | 38.69%  | 24.23% | 26.31% |
| First American Specialty Ins Co   | 72.62% | 67.26% | 129.22% | 58.65% | 51.60% |
| Allied Prop & Cas Ins Co          | 72.89% | 96.06% | 83.11%  | 54.40% | 34.72% |
| Safeco Ins Co of IL               | 72.92% | 77.09% | 60.96%  | 47.94% | 43.33% |
| Federal Ins Co                    | 49.56% | 63.39% | 92.26%  | 36.83% | 35.59% |
| Hartford Underwriters Co          | 70.32% | 75.93% | 85.70%  | 40.19% | 50.53% |

Rate Filings Submitted by California's Top 20 Insurance Companies  
Selling Homeowner Insurance  
For The Period 2001-2005

| COMPANY NAME                   | 2001  | 2002  | 2003  | 2004 | 2005   |
|--------------------------------|-------|-------|-------|------|--------|
| State Farm General Ins Co      | 6.9%  | 6.7%  | 5.7%  |      |        |
|                                | 22.3% | 6.9%  | 7.2%  |      |        |
|                                | 22.3% |       |       |      |        |
| Fire Ins Exchange              | 6.9%  | 6.9%  | -0.8% |      |        |
|                                | 6.9%  | 13.%  | 9.82% |      |        |
|                                | 5%    | 14.5% |       |      |        |
| Allstate Ins Co                |       | 18.5% |       |      |        |
| California State Auto Assoc    | 6.9%  | 18.8% | 0%    |      |        |
| Interins Exch of the Auto Club |       | 0.3%  | 6.9%  |      | -12.0% |
|                                |       | 6.6%  | 3.5%  |      |        |
|                                |       | 6.5%  | -5.5% |      |        |
| Mercury Cas Co                 |       | 6.9%  |       |      |        |
|                                |       | 6.9%  |       |      |        |
| United Services Auto Assoc     |       | 6.9%  | 7.2%  | -4%  |        |
| AMCO Ins Co                    |       | 6.9%  |       | 0%   |        |
|                                |       | 20.9% |       |      |        |
| USAA Cas Ins Co                |       | 12%   | 7.2%  | -4%  |        |
| Liberty Mutual Fire Ins Co     |       | 16.8% | 5.4%  |      | 0%     |
| Fireman's Fund Ins Co          |       | 13.5% |       |      |        |

## Homeowner Rate Filings - Con't

| COMPANY NAME                    | 2001   | 2002  | 2003  | 2004 | 2005 |
|---------------------------------|--------|-------|-------|------|------|
| Century-Natl Ins Co             | -7.7%  | 10.5% | 9.65% | 5.5% |      |
|                                 |        |       |       | 11%  |      |
| Pacific Specialty Ins Co        | -13.3% | 22.2% | 28.5% |      |      |
|                                 |        | 17%   | 5.75% |      |      |
|                                 |        |       | 3.75% |      |      |
| Travelers Prop Cas Ins Co       |        |       |       | 8.9% |      |
| Safeco Ins Co of America        | 5%     | 10%   | 6.2%  |      |      |
|                                 |        |       | 6.9%  |      |      |
| First American Specialty Ins Co |        | 7%    |       |      |      |
|                                 |        | 12%   |       |      |      |
| Allied Prop & Cas Ins Co        |        | 6.9%  |       | 0%   |      |
|                                 |        | 20.9% |       |      |      |
| Safeco Ins Co of IL             | 5%     | 10%   | 6.2%  |      |      |
|                                 |        |       | 6.9%  |      |      |
| Federal Ins Co                  |        |       | -1.4% |      |      |
| Hartford Underwriters Ins Co    |        | 16.7% |       |      |      |

California's Top 20 Insurance Companies  
Selling Private Passenger Automobile Liability Insurance

2001–2005 Incurred Losses + Loss Adjustment Expense to Earned Premium Ratio

| COMPANY NAME                      | 2001   | 2002   | 2003   | 2004   | 2005   |
|-----------------------------------|--------|--------|--------|--------|--------|
| State Farm Mutual Auto Ins Co     | 89.15% | 93.36% | 70.92% | 61.92% | 62.88% |
| Farmers Ins Exchange              | 75.69% | 61.14% | 79.18% | 77.48% | 69.25% |
| Interins Exch of the Auto Club    | 72.15% | 72.02% | 66.73% | 56.07% | 57.99% |
| California State Auto Assoc Inter | 82.80% | 80.98% | 79.34% | 71.98% | 64.16% |
| 21 <sup>st</sup> Century Ins Co   | 88.61% | 81.99% | 73.23% | 72.15% | 69.21% |
| Mercury Ins Co                    | 71.92% | 71.77% | 68.26% | 59.60% | 60.46% |
| Allstate Ind Co                   | 92.59% | 85.01% | 68.56% | 72.59% | 75.05% |
| Mercury Cas Co                    | 82.17% | 78.10% | 67.94% | 58.34% | 60.53% |
| Allstate Ins Co                   | 83.54% | 70.04% | 64.44% | 63.48% | 56.70% |
| Infinity Ins Co                   | 72.51% | 75.24% | 68.41% | 59.74% | 54.75% |
| Progressive Choice Ins Co         | 35.67% | 70.24% | 64.08% | 61.30% | 57.29% |
| Coast National Ins Co             | 78.85% | 82.32% | 76.50% | 68.13% | 58.87% |
| Progressive West Ins Co           | 71.49% | 78.27% | 71.83% | 67.90% | 66.58% |
| Safeco Ins Co of America          | 80.10% | 77.50% | 65.78% | 53.88% | 77.81% |
| United Services Auto Assoc        | 88.96% | 83.50% | 84.24% | 73.05% | 81.94% |
| USAA Cas Ins Co                   | 87.17% | 95.22% | 73.59% | 69.08% | 72.97% |
| Geico General Ins Co              | 89.36% | 87.72% | 86.48% | 79.93% | 69.37% |
| Granite State Ins Co              | 87.56% | 86.06% | 65.58% | 73.08% | 77.84% |
| Liberty Mutual Fire Ins Co        | 90.72% | 87.31% | 77.49% | 75.74% | 66.61% |
| Viking Ins Co of WI               | 88.84% | 84.18% | 69.89% | 70.31% | 90.08% |



California's Top 20 Insurance Companies  
Selling Private Passenger Automobile Physical Damage Insurance

2001-2005 Incurred Losses + Loss Adjustment Expense to Earned Premium Ratio

| COMPANY NAME                      | 2001    | 2002    | 2003    | 2004    | 2005    |
|-----------------------------------|---------|---------|---------|---------|---------|
| State Farm Mutual Auto Ins Co     | 98.47%  | 92.65%  | 73.57%  | 66.08%  | 65.63%  |
| Farmers Ins Exchange              | 77.36%  | 74.61%  | 68.70%  | 62.56%  | 64.69%  |
| Interins Exch of the Auto Club    | 85.41%  | 72.33%  | 67.89%  | 62.37%  | 66.44%  |
| California State Auto Assoc Inter | 81.28%  | 76.12%  | 69.26%  | 71.08%  | 69.22%  |
| 21 <sup>st</sup> Century Ins Co   | 90.13%  | 74.18%  | 63.58%  | 63.28%  | 64.56%  |
| Mercury Ins Co                    | 66.80%  | 69.90%  | 68.72%  | 65.86%  | 67.88%  |
| Allstate Ind Co                   | 86.94%  | 84.53%  | 83.83%  | 78.09%  | 78.17%  |
| Allstate Ins Co                   | 71.95%  | 67.77%  | 55.10%  | 49.19%  | 50.56%  |
| Coast Natl Ins Co                 | 76.36%  | 75.63%  | 71.87%  | 68.73%  | 72.46%  |
| Mercury Cas Co                    | 65.64%  | 58.04%  | 60.84%  | 48.97%  | 53.03%  |
| United Services Auto Assoc        | 63.02%  | 61.17%  | 65.00%  | 59.26%  | 64.87%  |
| Progressive West Ins Co           | 83.90%  | 81.72%  | 75.07%  | 72.06%  | 71.29%  |
| USAA Cas Ins Co                   | 80.36%  | 76.19%  | 70.39%  | 66.13%  | 63.74%  |
| Infinity Ins Co                   | 73.46%  | 74.86%  | 68.77%  | 62.66%  | 65.40%  |
| Safeco Ins Co of America          | 3.54%   | 82.50%  | 82.00%  | 71.75%  | 74.59%  |
| Geico General Ins Co              | 81.70%  | 76.43%  | 64.00%  | 59.45%  | 64.72%  |
| Liberty Mutual Fire Ins Co        | 77.71%  | 80.59%  | 77.20%  | 64.51%  | 69.08%  |
| Progressive Choice Ins Co         | 78.71%  | 65.79%  | 63.74%  | 55.32%  | 54.47%  |
| Government Employees Ins Co       | 83.77%  | 61.93%  | 56.17%  | 68.79%  | 69.03%  |
| Wawanesa General Ins Co           | 116.98% | 111.94% | 105.44% | 103.35% | 111.45% |

Rate Filings Submitted by California's Top 20 Insurance Companies  
Selling Private Passenger Automobile Insurance  
For The Period 2001-2005

| COMPANY NAME                    | 2001  | 2002  | 2003  | 2004  | 2005 |
|---------------------------------|-------|-------|-------|-------|------|
| State Farm Mutual Auto Ins Co   | -0.1% | 6.9%  |       | -7.6% |      |
|                                 |       | 6.9%  |       |       |      |
|                                 |       | 6.9%  |       |       |      |
| Farmers Ins Exchange            | 6.6%  | 6.9%  | 16.4% | 0.68% |      |
|                                 | 6.6%  | 2.5%  |       |       |      |
|                                 | 6.6%  |       |       |       |      |
| Interins Exch of the Auto Club  | 5.2%  | 5.3%  |       | -5.0% |      |
|                                 |       | 5.0%  |       |       |      |
| California State Auto Assoc     |       | 4.4%  | 2.5%  |       |      |
| 21 <sup>st</sup> Century Ins Co | 6.85% | 5.79% |       |       |      |
|                                 |       | 3.93% |       |       |      |
| Mercury Ins Co                  | 4.1%  | 3.8%  |       |       |      |
|                                 | 3.22% |       |       |       |      |
| Allstate Ind Co                 |       | 8.9%  |       |       |      |
|                                 |       | 2.2%  |       |       |      |
| Mercury Cas Co                  | 6.9%  | 6.9%  | 6.9%  |       |      |
|                                 |       | 3.22% |       |       |      |
|                                 |       | 6.9%  |       |       |      |

Private Passenger Automobile Rate Filings – Con't

| COMPANY NAME               | 2001  | 2002  | 2003  | 2004 | 2005 |
|----------------------------|-------|-------|-------|------|------|
| Allstate Ins Co            | 6.2%  | 8.9%  |       |      |      |
|                            |       | 2.2%  |       |      |      |
| Infinity Ins Co            | 2.77% | 0.53% |       |      |      |
| Progressive Choice Ins Co  |       |       | 2.0%  |      |      |
| Coast National Ins Co      | 7.9%  | 3.25% | 2.8%  |      |      |
|                            | 7.5%  | 8.89% |       |      |      |
|                            | 3.5%  |       |       |      |      |
|                            | 6.6%  |       |       |      |      |
|                            | 6.8%  |       |       |      |      |
| Progressive West Ins Co    | 1.4%  |       | 0%    |      |      |
| Safeco Ins Co of America   | 1.0%  | 0.2%  | 0.89% |      |      |
|                            | 2.5%  | 4.05% |       |      |      |
|                            | 2.5%  |       |       |      |      |
| United Services Auto Assoc | 5.5%  | 6.8%  |       |      |      |
|                            |       | 3.0%  |       |      |      |
| USAA Cas Ins Co            | 3.5%  | 1.2%  |       |      |      |
|                            |       | 3.0%  |       |      |      |

### Private Passenger Automobile Rate Filings - Con't

| COMPANY NAME               | 2001  | 2002   | 2003 | 2004   | 2005  |
|----------------------------|-------|--------|------|--------|-------|
| Geico General Ins Co       | 7.7%  | 8.7%   | 1.1% | -1.6%  |       |
|                            | 7.7%  | 7.1%   | 6.8% | -7.8%  |       |
|                            | 7.7%  | 6.9%   | 6.7% | -1.9%  |       |
|                            | 7.7%  | 14.5%  | 6.1% | -6.5%  |       |
| Granite State Ins Co       | 0.1%  | 6.9%   |      | -12.6% |       |
| Liberty Mutual Fire Ins Co | 4.5%  | 4.0%   | 5.0% | 0%     | -0.3% |
|                            | 3.4%  | -7.75% |      |        |       |
|                            | 0.9%  | 3.75%  |      |        |       |
| Viking Ins Co of WI        | 5.15% | 15.4%  |      |        |       |
|                            |       | 6%     |      |        |       |
|                            |       | 24.7%  |      |        |       |
|                            |       | 8.95%  |      |        |       |

## Observations

While there are always exceptions to broad statements about the insurance industry, this report has identified several noteworthy statistical trends:

1. The loss ratio for the homeowner line of insurance has significantly improved and continues to do so for *many* insurance companies.
2. The loss ratio for the private passenger automobile line of insurance has been improving for *some* insurance companies.
3. When loss ratios increase, most insurance companies do not hesitate to submit rate filings to raise the premiums they charge consumers.
4. When loss ratios decrease, few insurance companies submit rate filings to lower the premiums they charge consumers.
5. There is strong evidence to support the argument that some insurance companies selling homeowners insurance appear to be making excessive profits.
6. There is strong evidence to support the argument that insurance companies, under certain circumstances, should be required to resubmit rate filings to ensure that the rates being charged consumers are not excessive. The proposed Prior Approval Regulations (RH 05042749) require insurance companies to re-file private passenger automobile and homeowner rates under certain circumstances.
7. The Auto Rating Factor Regulations contain a requirement that all insurance companies selling private passenger automobile insurance re-file their rates. This will provide an opportunity to review the rates that, for many insurance companies, have not changed for several years – even though the loss ratios have been improving.
8. The Commissioner does have authority to request that an insurer change its rate to a non-excessive rate, and if the insurer disagrees that the rate is excessive, to conduct a hearing on whether rates are excessive. ( Insurance Code sections 1861.05(a) and 1858.1.)